PART IV

Section 1-C

GENERAL STATUTORY RULES AND STATUTORY ORDERS ISSUED BY THE CENTRAL GOVERNMENT AND ORDERS MADE BY THE PRESIDENT AND REPUBLISHED BY THE STATE GOVERNMENT

NOTIFICATION.

(LAW DEPARTMENT).

No LAW 106 LOR 65, Bangalore, dated the 29th June 1965.

Ordered that the accompanying Notification No. S. O. 860, dated the 8th March 1965 of the Central Board of Direct Taxes *re*: The Income-tax (Third Amendment) Rules, 1965 which has been published in the *Gazette of India*, Extraordinary, Part II, Section 3, sub-section (ii) dated the 9th March 1965, be republished in the *Mysore Gazette*, for general Information.

By Order and in the name of the Governor of Mysore,

H. K. ANANTHASUBBA RAO,
Under Secy. to Govt., L. D.

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GOVERNMENT OF INDIA.

CENTRAL BOARD OF DIRECT TAXES

NOTIFICATION.

INCOME-TAX.

New Delhi, the 8th March 1965.

S.O. 860.—In exercise of the powers conferred by section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely :—

1. These rules may be called the Income-tax (Third Amendment Rules, 1965.

2. In the Income-tax Rules, 1962 (hereinafter called the principal rules) rule 6A shall be re-numbered as rule 6E and before rule 6E as so re-numbered, the following rules shall be inserted, namely :—

'6A. *Limits and conditions for allowance of expenditure in certain cases.*—Expenditure referred to in sub-section (3) of section 37 shall be allowed only to the extent and subject to the conditions specified in rule 6B, 6C and 6D :

Provided that in the case of such expenditure incurred before the 1st day of April, 1965, the full amount thereof, if otherwise admissible under sub-section (1) of section 37, shall be allowed.

6B. *Expenditure on advertisement.*—(1) The allowance in respect of expenditure on advertisement shall not, in the following cases, exceed the amount specified hereunder :—

(a) in respect of each advertisement in any printed publication other than a newspaper, Rs. 2,000.

Explanation.—"Newspaper" shall have the meaning assigned to it in clause (b) of section 2 of the Working Journalists (Conditions of Service) and Miscellaneous Provisions Act, 1955 (45 of 1955) ;

(b) in respect of articles intended for [presentation, Rs. 50 on each such article ;

(c) in respect of any advertisement outside India involving payment in foreign currency, the amount covered by foreign exchange granted [to, or permitted to be acquired by, the assessee for this purpose under the law relating to foreign exchange for the time being in force.

(2) The allowance in respect of expenditure on advertisement shall not exceed—

(a) (i) in respect of the business of production of motion pictures, seven per cent. of the cost of production of each picture ;

(ii) in respect of the business of production-*cum*-distribution of motion pictures, ten per cent. of the cost of production of each picture :

Provided that any allowance under this clause in respect of expenditure on advertisement before the release of the picture shall not exceed five per cent. of the cost of production.

Explanation.—For the purposes of this clause, "cost of production" shall be computed without taking into account the expenditure incurred on advertisement ;

(b) in respect of the business of distribution of motion pictures, five per cent. of the gross receipts ;

(c) in respect of any business relating to entertainment other than those referred to in clause (a) or clause (b), or any profession relating to entertainment, ten per cent of the gross receipts or Rs. 10,000, whichever is higher ;

(d) in respect of any business which consists wholly or mainly of international transport, two and a half per cent, of the gross receipts,

Explanation.—For the purposes of this clause, a business shall be deemed to consist mainly of international transport, if the amount of gross receipts attributable to the said activity included in the aggregate gross receipts for the relevant previous year is not less than fifty-one per cent of such aggregate gross receipts ;

(e) in respect of any business or profession, other than those referred to in clauses (a), (b), (c), (d), and (f) the aggregate of the amounts computed as hereunder :

(i) on the first Rs. 25,00,000 of the turnover, or, as the case may be, the gross receipts.	at the rate of two per cent., or Rs. 5,000/–, whichever is higher ;
(ii) on the next Rs. 25,00,000 of the turnover, or, as the case may be the gross receipts.	at the rate of one per cent ;
(iii) on the next Rs. 50,00,000 of the turnover, or, as the case may be, the gross receipts.	at the rate of one-half per cent ;
(iv) on the balance of the turnover, or, as the case may be, the gross receipts.	at the rate of one-fourth per cent ;
(f) in the case of any hotel or restaurant which has regularly provided during the relevant previous year a cabaret for the entertainment of its customers.	An amount determined under the provisions of sub-clause (e) as increased by ten per cent, thereof.

(3) Except in a business of production or production-*cum*-distribution of motion pictures, the allowance in respect of expenditure an advertisement shall in no case exceed a sum which bears to the turnover, or, as the case may be, the gross receipts, of the relevant previous year, the same proportion as the aggregate of the amount of expenditure on advertisement actually allowed in computing the income of the assessee for each of the three previous years immediately preceding such previous year bears to the aggregate amount of the turnover, or, as the case may be, the gross receipts, of the aforesaid three previous years :

Provided that where the business or profession was newly set up in the last year but one, or in the last, of the said three previous years, the references in this sub-rule to the said three previous years shall be

construed as references to the last two, or, as the case may be, the last, of those previous years:

Provided further that nothing in this sub-rule shall apply to the determination of the allowance in respect of such expenditure incurred in a business or profession newly set up in the relevent previous year.

(4) Nothing contained in sub-rule (2) or sub rule (3) shall apply to—

(a) the computation of the profits and gains derived from any industrial undertaking which fulfils the conditions mentioned in clauses (i), (ii) and (iv) of sub-section (2) of section 84 for the assessment year relevant to the previous year in which it begins to manufacture or produce articles within any part of India, and for the two assessment years immediately succeeding; or

(b) any expenditure on advertisement outside India, involving payment in foreign currency, incurred by a person who—

(i) carries on any business of exporting goods or merchandise out of India or is engaged in the business of international transport or carries on any business or profession which involves the rendering of technical service outside India, or

(ii) is engaged in the manufucture of any article in an industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (65 of 1951), and either himself exports such articles out of India or sells them to any other person in India who exports them out of India.

to the extent covered by foreign exchange granted to or permitted to be acquired by him for this purpose under the law relating to foreign exchange for the time being in force,

(5) here in relation to a portion of the amount of expenditure on advertisement incurred by the assessee the provisions of sub-rule (4) apply, the turnover, or, as the case may be the gross receipts for the purposes of sub-rule (2) and sub-rule (3) shall not include the turnover, or, as the case may be, the gross receipts, attributable to the business or profession referred to in sub-rule (4).

(6) For the purposes of this rule, rule 6C and rule 6D—

(i) "turnover" means the aggregate of all amounts for which sales of any stock-in-trade have been effected by the assessee during the relevant previous year in the course of his business and credited to the manufacturing account or trading account or profit and loss account;

(ii) "gross receipts" means the aggregate of all amounts received or receivable by an assessee during the relevent previous year in the course of his business or profession (other than receipts which are of a capital nature) and credited to the revenue account or profit and loss account.

6C. *Expenditure on residential accommodation including guest houses.*—(1) The allowance in respect of expenditure incurred by an assessee on the maintenance of residential accommodation in the nature of a guest house (hereinafter referred to as guest house) shall not, in the following cases, exceed :—

(a) (i) where a company maintains more than one guest house at the place where its registered office is situated, the expenditure incurred on the maintenance of such one of the guest houses as may be specified by the company in writing to the Income-tax Officer not later than the 1st day of April of the relevent assessment year ;

(ii) where any assessee other than a company maintains more than one guest house at the principal place of his business or profession, the expenditure incurred on the maintenance of such one of the guest houses as may be specified by the assessee in writing to the Income-tax Officer not later than the 1st day of April of the relevant assessment year ;

(b) where the assessee maintains a guest house at any place [other than the place referred to in clause (a)] where he has an establishment (including a factory) for all or any of the purposes of acquisition of goods or raw materials, processing of raw materials, production of articles and sale of goods, the expenditure incurred on the maintenance of the guest house, or where the assessee maintains two or more such guest houses, the expenditure incurred on the maintenance of such one of the guest houses as may be specified by him in writing to the Income-tax Officer not later than the 1st day of April of the relevant assessment year :

Provided that at that place not less than twenty-five per cent of such acquisition, processing, production or sale, as the case may be, has taken place during the previous year ;

(c) where an assessee maintains a guest house at any place other than the places referred to in clauses (a) and (b), the expenditure incurred on the maintenance of the guest house, or where the assessee maintains two or more such guest houses, the expenditure incurred on the maintenance of the two guest houses, or, as the case may be, on such two of the guest houses, as may be specified by him in writing to the Income-tax Officer not later than the 1st day of April of the relevent assessment year :

Provided that the assessee has in his employment not less than 500 whole-time employees throughout the relevant previous year and the guest house is, or the guest houses are maintained mainly for the use of the whole-time employees drawing salary not exceeding Rs. 1,000 per month.

(2) The allowance in respect of expenditure incurred by an assessee on the maintenance of a guest house, or, as the case may be, guest houses, shall in no case exceed—

(a) in respect of the guest houses specified in clauses (a) and (b) of sub-rule (1), the aggregate of the amounts computed as hereunder :	
(i) on the first Rs. 25,00,000 of the turnover, or, as the case may be, gross receipts	at the rate of one-half per cent; and
(ii) on the balance of the turnover, or, as the case may be, gross receipts	at the rate of one-tenth per cent.;
(b) in respect of a guest house, or, guest houses, specified in clause (c) of sub-rule (1)	one half per cent. of the aggregate salary payable during the relevant previous year (or for such part of the relevent previous year for which the guest house or guest houses have been maintained) to the whole-time employees drawing salary not exceeding Rs. 1,000 per month.

(3) The allowance in respect of expenditure incurred by an assessee on the maintenance of any residential accommodation which results directly or indirectly in the provision of any benefit or amenity or perquisite to an employee shall not exceed twenty per cent. of the salary due to such employee in respect of the period of his occupation of the said accommodation during the relevant previous year.

(4) Nothing contained in this rule shall apply to expenditure to which the provisions of sub-clause (iii) of clause (c) of section 40 apply.

(5) No allowance shall be made in respect of expenditure incurred on the maintenance of any residential accomodation in the nature of a guest house unless the assessee maintains a register in Form No. A in respect of the accommodation.

(6) For the purposes of this rule and rule 6D, the expression "salary" shall have the meaning assigned to it in clause (h) of rule 2 of Part A of the Fourth Schedule.

6D. *Expenditure in connection with travelling, etc.*—(1) (i) The allowance in respect of expenditure incurred by an assessee in connection with travelling by an employee or any other person outside India for the purposes of the business or profession of the assessee shall not exceed the amount which bears to the aggregate of the amount, if any, covered by foreign exchange granted,

or permitted to be acquired, for the purpose of such travel under the law relating to foreign exchange for the time being in force and the amount expended on such travel in Indian currency, the same proportion as is determined in the manner specified in clause (ii);

(ii) the proportion referred to in clause (i) shall be determined by dividing the number of days required for such travel by a reasonably direct route in the purposes of the business or profession of the assessee outside India, by the total number of days spent by such employer or other person outside India (excluding the number of days required for such travel by a reasonably direct route in the mode of travel adopted by him).

(2) The allowance in respect of expenditure incurred by an assessee in connection with travelling by an employee or any other person within India outside the headquarters of such employee or other person for the purposes of the business or profession of the assessee shall not exceed the aggregate of the amounts computed as hereunder:—

(a) in respect of travel by road, rail-way or air, the actual fare paid;

(b) in respect of travel involving journey by road otherwise than by taking a single seat in any public conveyance which plies regularly for hire between fixed points and charges fixed rates, the amount calculated at the rate of 3½ paise per kilometre;

(c) in respect of any other expenditure (including hotel expenses or allowances paid) in connection with such travel, an amount calculated at the following rates for the period spent outside such headquarters—

	For the period spent at Bombay, Calcutta, Delhi or Madras.	For the period other than that referred to in column (1)
	(1)	(2)
(i) In respect of an employee whose salary is Rs. 2,000 per month or more.	80 per day or part thereof.	40 per day or part thereof.
(ii) In respect of an employee whose salary is Rs. 1,000 per month or more but is less than Rs. 2,000 per month.	50 per day or part thereof.	25 per day or part thereof.
(iii) In respect of any other emyloyee.	25 per day or part thereof.	15 per day or part thereof.

(iv) In respect of any other person (including a Director of a company, who is not an employee of the company).	An amount calculated at the rates applicable in the case of the highest-paid employee of the assessee.	An amount calculated at the rates applicable in the case of the highest paid employee of the assessee :

Provided that in a case where such employee or other person (including a Director of a company, who is not an employee of the company) on any day of his stay outside his headquarters, stays free of charge in any residential accommadation in the nature of a guest house maintained by the assessee, the amount under this clause shall be calculated at one-half of the aforesaid rates.

(3) The allowance in respect of expenditure in connection with travelling by an employee or any other person shall not, in the case of any assessee, exceed a sum which bears to the turnover, or, as the case may be, the gross receipts of the relevant previous year the same proportion as the aggregate amount of expenditure on travelling actually allowed in assessing the income of the assessee for the three previous years immediately preceding the said previous year bears to the aggregate amount of the turnover, or, as the case may be, the gross receipts of the aforesaid three previous years :

Provided that where the business or profession was newly set up in the last year but one, or in the last, of the said three previous years, the references in this sub-rule to the said three previous years shall be construed as references to the last two, or, as the case may be, the last, of those previous years :

Provided further that nothing in this sub-rule shall apply to the determination of the allowance in respect of such expenditure incurred in a business or profession newly set up in the relevant previous year.

(4) No allowance shall be made in respect of expenditure in the maintenance and running of a motor-car or other conveyance for the purposes of the business or profession unless the assessee maintains a register in Form No. B in respect of such motor-car or other conveyance."

3. After Appendix I to the principal rules, the following Appendix shall be inserted, namely :—

"**Appendix IA**

FORM No. A

(*See* rule 6 C)

Register in respect of residential accommodation in the nature of a guest house maintained for the purposes of the business or profession.

Name of the person using the accommodation	If the person is an employee of the assessee, his designation and headquarters	If not an employee of th assessee, full address and occupation	Whether the visit is for the purposes of the business or profession of the assessee	If the person is accompanied by members of his family or any other person, particulars thereof	Date of arrival	Date of departure	Details of charges, if any, paid by the person	Signature of the person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

FORM No. B

(*See* rule 6D)

Register in respect of motor-car or other conveyance used for the purposes of the business or profession.

Date	Period of use		Reading of meter		Distance covered	Name and designation of the person using the conveyance	Place visited and purpose of visit	Signature of the person using the conveyance	Remarks
	From (Hours)	To (Hours)	At the commencement of the trip	At the conclusion of the trip					
(1)	(2)		(3)	(4)	5	(6)	(7)	(8)	

[No. 20/F. No. 1 (141)-64/TPL.]

V. RAMASWAMI IYER, Secy.